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TO RUEHC/SECSTATE WASHDC 7821
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RUEHMN/AMEMBASSY MONTEVIDEO 2579
RUEHBU/AMEMBASSY BUENOS AIRES 3022
RUEHSG/AMEMBASSY SANTIAGO 2276
RUEHLP/AMEMBASSY LA PAZ 3673
RUEHPE/AMEMBASSY LIMA 1212
RUEHCV/AMEMBASSY CARACAS 0644
RUEHBO/AMEMBASSY BOGOTA 1642
RUEHGE/AMEMBASSY GEORGETOWN 0109
RUEHMD/AMEMBASSY MADRID 0885
RUEHAC/AMEMBASSY ASUNCION 3273
RUEHRG/AMCONSUL RECIFE 3957
RUEHRI/AMCONSUL RIO DE JANEIRO 8533
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UNCLAS SECTION 01 OF 04 SAO PAULO 000019

SIPDIS

SENSITIVE

SIPDIS

DEPT FOR WHA/BSC, WHA/EPSC, AND EB/IFD/OMA
STATE PASS TO USTR FOR KDUCKWORTH
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR TOMASULO
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
TREASURY FOR JHOEK
AID/W FOR LAC/AA

REF A) 07 Sao Paulo 780; B) 07 Sao Paulo 1005; C) Sao Paulo 12; D)
07 Brasilia 2151; E) Brasilia 0006

E.O. 12958: N/A

TAGS: PGOV PREL ECON EINV ETRD BR VE

SUBJECT: FORMER FINANCE MINISTER ON BRAZILIAN POLITICS AND RELATIONS
WITH VENEZUELA

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

Summary

11. (SBU) During a January 7 meeting with the Ambassador, former Minister of Finance Antonio Delfim Netto (strictly protect), who is currently working as a political and business consultant, discussed the opposition's victory over the government in a major tax battle and its implications for domestic politics and the 2010 presidential elections. Delfim also emphasized Brazil's focus on infrastructure development and said that the country will continue to pursue large-scale privatization efforts. On the subject of Brazil's relations with Venezuela, Delfim stated that Lula is concerned about Chavez's foreign policy agenda, especially his desire to annex one third of Guyana's territory. End Summary.

CPMF Tax Defeat

12. (SBU) Delfim labeled the Brazilian Senate's December rejection of the renewal of the Provisional Financial Transactions Tax (CPMF - see ref B), as a significant defeat for the government alliance. In his view, the opposition worked to eliminate the tax, which was projected to generate 40 billion Reals (about USD 23 billion) in revenue in 2008, in order to "starve the beast," or attempt to control what government opponents see as unjustified public spending. In addition to the lost source of income that expiration

of the CPMF will create, rejection represented a political setback for the Lula Administration as the President expended significant political capital in supporting the continuation of this tax. The opposition is now mounting a legal challenge to the Ministry of Finance's efforts to compensate for anticipated revenue losses by raising the Financial Operations Tax (IOF) and Corporate Profits Tax (CSLL) contributions - which Delfim mentioned are in effect very small increases - in the Supreme Federal Tribunal (ref C). Delfim predicted that the court will rule against the government and find the IOF and CSLL adjustments unconstitutional.

Internal Politics and 2010 Presidential Elections

¶3. (SBU) Delfim rebutted rumors that the CPMF defeat would lead to internal political fallout and stated that Lula is unlikely to replace Guido Mantega as Finance Minister because, even though Mantega is not a strong or independent minister, Lula and his main advisor, Civil Household Minister (Chief of Staff equivalent) Dilma Rousseff, would prefer to keep him on board. According to Delfim, Lula personally likes Mantega; both he and Rousseff believe Mantega can be easily controlled and is a convenient scapegoat for Lula on politically unpopular issues, someone that Lula can use "like a pen" because Mantega, unlike some other ministers, does not question the president's decisions. Delfim dispelled rumors that Belo Horizonte Mayor Fernando Pimentel would replace Mantega (ref B) and further stated that Lula is not grooming Pimentel to become the presidential candidate of his Workers' Party (PT) in 2010 as some analysts have suggested. (Note: During a January 7 meeting with FIESP, the Federation of Industries of Sao Paulo President Paulo Skaf [ref C], Skaf stated that he believed Pimentel would replace Minister Mantega this year as a stepping stone to becoming Governor of Minas Gerais.

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End Note.) Delfim said Lula's preferred successor would be Minister Rousseff or Social Development and Hunger Combat Minister Patrus Ananias, but noted that neither is actually apt to win the election. Delfim stated instead that Sao Paulo Governor Jose Serra of the opposition Social Democracy party (PSDB) is most likely to become Brazil's next president.

Infrastructure Development and Privatization

¶4. (SBU) Delfim acknowledged that the 2010 elections might also have an impact on infrastructure investment, which will continue to increase by at least 1.5 percent of GDP in 2008. Governor Serra is expected to push privatization in Sao Paulo State, especially in the road and energy sectors, as a means of both boosting economic growth and enhancing his credentials as a market reformer in the run-up to the 2010 elections. Besides calling for a large road construction expansion program, Serra is also working actively with the Inter-American Development Bank (IDB) to promote private-sector infrastructure investment. Serra's probable primary opponent in the national elections of 2010, Minas Gerais Governor Aecio Neves, is looking to carry out similar policies in his own state to viably compete with Serra on the economic development front, Delfim said.

¶5. (SBU) Minister Rousseff is a key player in further driving infrastructure development, Delfim said. Rousseff has become a stronger supporter of private sector investment in the aftermath of Brazil's successful road concessions in October 2007. Her present position is a significant change because Rousseff, an erstwhile leftist militant described by Delfim as the "most important person in Brazil's government" after the president, has an overwhelming amount of influence on Brazil's national agenda. Although Rousseff continues to harbor suspicions about the private sector - Delfim stated that Rousseff believes Brazilian business is run like a "cartel and always has tricks up its sleeve" - she now sees the benefits of non-government investment. Spanish firms, with active support from Spain's government which, according to Delfim, practices an "aggressive industrial policy," are likely to be the largest foreign investors in Brazilian infrastructure. With respect to Brazil's ongoing civil aviation crisis, Delfim predicted that Rousseff will support privatizing some of the country's airports, a move which could be the beginning of a larger privatization process

encompassing such areas as railroads and ports.

Further Economic Views

¶6. (SBU) Delfim stated that Minister Mantega's proposal to establish a Brazilian sovereign wealth fund is a "terrible idea" and is unlikely to materialize because Brazilian foreign reserves are inadequate and will not grow by a sufficient amount over the next year due to a decline in Brazil's terms-of-trade. Delfim added that Brazil's exchange rate (approximately 1.75 Reals per U.S. Dollar) is currently overvalued which has a significant impact on the current account balance. Turning to WTO Doha Round negotiations, Delfim remarked that the talks will not succeed because all countries negotiating trade agreements want self-sufficiency in food production and he does not expect the United States to make adequate concessions in the agricultural sector to conclude a Doha agreement.

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Venezuela's Relations with its Neighbors

¶7. (SBU) Brazil's relations with Venezuela are tense and deteriorating, but Lula is seeking to avoid an open confrontation that could cause a serious rupture in bilateral relations and have an impact on the continent as a whole, Delfim said. He stated that Lula's presidency represents an "important inflection point" for Brazil because Lula is the first Brazilian president "to put poverty on Brazil's economic agenda in a serious way." Having come from a poor background himself, Lula understands the implications of growing up among a vastly neglected part of society. Delfim characterized Lula as someone who "believes deeply in South American unity" and thinks Latin American poverty brings the region's people together, enabling them to resolve conflicts through negotiation. Delfim, who stated his opposition to Venezuela's entry in Mercosul, said that Hugo Chavez is a "psychopath" (while Evo Morales is just a "poor man") but that Lula does not want to alienate the Venezuelan leader. Lula is worried about Venezuela's "serious" border problems with its neighbors, particularly Colombia and Guyana. Chavez has his sights on "one third" of Guyana's territory, and if Venezuela were to invade Guyana, Caracas would likely militarize all of Venezuela's south, antagonizing the indigenous populations there. (Comment: Former President and sitting Senator Jose Sarney has expressed similar concerns with regard to Chavez's designs on Guyana, per reflets D and E. End comment.) Delfim said this will have an impact on Brazil because the territories of at least one tribe, the Yanomami Indians spills over the Venezuela-Brazil border. Delfim believes that, should Venezuela invade Guyana, the Yanomamis will declare independence, forcing Brazil to get involved in a Venezuela-Guyana war.

Comment

¶8. (SBU) Considered by analysts to be one of Brazil's most influential economic commentators, Delfim supported Lula's re-election bid and is said to meet with him regularly to provide informal economic advice. At the beginning of Lula's second term, he was expected to be appointed to a Cabinet position or as head of the Brazilian Development Bank (BNDES). While some of his views come across as exaggerated, unorthodox, or idiosyncratic, his long experience and knowledge of the players afford him unique insight into machinations and conflicts involving the government and opposition. End Comment.

Biographical Information

¶9. (U) Born on May 1, 1928, Delfim is a University of Sao Paulo (USP) professor emeritus of macroeconomics and a Brazilian politician. In 1966-1967, Delfim was Sao Paulo State Finance Secretary and subsequently national Minister of Finance, a post he

held until 1974. During his tenure under the military dictatorship, Brazil underwent what many analysts call an "economic miracle" with seven successive years of over 10 percent growth. He was Ambassador to France (1975-1978) and served as Minister of Agriculture (1979) and Planning (1979-1985). Delfim was elected Federal Deputy in 1986 and was re-elected five times before being defeated in 2006. He was

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instrumental in creating financial regulations that increased the role of the federal government and centralized more power in Brasilia at the expense of states and municipalities. Delfim is a regular columnist on economic issues for Carta Capital Magazine mass-circulation daily Folha de Sao Paulo, as well as a political and business consultant.

¶10. (U) This message was cleared through the U.S. Treasury Attaché in Sao Paulo and Embassy Brasilia.

¶11. (U) Minimize considered.

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